Will U.S. Trade Imbalances Lead to Greater Export Opportunities?

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The U.S. has a seemingly insatiable appetite for imports, which are now equivalent to over 13% of GDP[1]. Whether during economic expansions, contractions or simply periods of slow growth, we continue to import more than we export and spend more than we produce. Our trade imbalance keeps mounting and is a drag on the economy. In 2002 the trade deficit exceeded 4% of GDP and may be approaching a historic high of 5%[2]. It's not just imports that keep rolling in, but we are also exporting less. After many years of consecutive increases in exports, since 2000 U.S. goods exports declined by $90 billion[3].

How do we finance our deficits and manage to keep paying for all these imports? Foreigners want something in return for what they send us, if not Chevrolets for BMWs, then some kind of financial asset. This has taken the form of securities, stocks, bonds, real estate and foreign investment in productive assets, whether auto plants in South Carolina, office buildings in New York or movie studios in Los Angeles. As long as foreign creditors want these assets, the U.S. can keep importing more than it exports and benefit from the flow of foreign investment. This has been one reason for the strength of the dollar over the years, as foreigners bid up the value of the dollar in their desire for U.S. assets. From 1995 to 2001 the dollar appreciated by 36%[4], and we were awash in relatively cheap imports.

But this hasn't been a free lunch; we've been paying for it on credit. We need about $400 billion a year of capital inflows or foreign investment just to cover our trade deficit[5]. As a result of these foreign liabilities the U.S. has become the world's largest debtor nation[6], the consequence of accumulating trade deficits.

What happens when foreigners don't want to hold so much of our debt or decide to cash in their U.S. investments? Our currency, the dollar, will become less valuable. As foreign

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[1] Bureau of Economic Analysis/USDOC, News Release, International Transactions 3-14-03, reported imports of goods and services in 2002 of $1,408 billion; BEA reported 2002 GDP was $10,446 billion in "National Accounts Data," Current Dollar and Real GDP Time Series in http://www.bea.gov/bea/dn1.htm.
[2] BEA 3-14-03 News Release, op. cit. Deficit on goods and services in 2002 was $436 billion, up from $359 billion in 2001.
[3] *Economic Report of the President, 2003*, p.394, TableB-103 and BEA News Release 3-14-03, op. cit.
[4] *Economic Report of the President (ERP) 2003*, p. 402, Table B-110, Nominal trade-weighted value of the dollar, broad index basis.
[5] Average of last two years' trade deficits and expected deficit for 2003.
[6] *Survey of Current Business*, DOC/BEA, July 2002, p. 17, Table 1, Net International Investment Position of the U.S. is reported at negative $2.3 trillion.

investment slows, it will become harder for the U.S. to finance not only the trade deficit, but to finance other forms of international borrowing, including the sale of government debt, which to a considerable extent has been accommodated by foreign buyers. Add to this the influence of the big decline in U.S. interest rates, and the all-mighty dollar isn't as mighty as it used to be. Since early 2002 it's declined by 12%[7], and the cost of our imports has gone up. Versus the Euro the dollar has declined 21% since early 2002 and is at its lowest level since 1999[8].

But the news isn't all bad. The declining dollar is making U.S. exports cheaper for foreign buyers. As foreigners tire of holding their U.S. debt in the form of financial assets or pieces of green paper with pictures of dead presidents, they will instead demand U.S. products and services as payback, made increasingly attractive as the dollar declines. Even with the 2.4% growth of the economy in 2002[9] -- the historical average for the U.S. -- exports of goods grew at a rate of over 6% in the first nine months of the year[10], after likely bottoming out in early 2002. That's the encouraging part for exporters as export markets in general grow faster than the U.S. domestic market[11].

What else could encourage the growth of U.S. exports? The foreign exchange rate value of the dollar is a huge factor, as is the eventual necessity of having to pay down the accumulated trade deficits with exports. These have already been discussed.

For decades the U.S. economy has become less goods-oriented and more services-oriented. Our exports have been following suit as the growth of services exports continues to exceed the growth of goods exports. Small businesses are particularly well-suited to take advantage of this trend. They are prominent in the services sector of the economy, and U.S. business practices and technological know-how are in worldwide demand.

So the three trends discussed in this article – a declining value of the dollar, accumulating trade deficits, and demand for U.S. services – could work together to increase the market for U.S. exports.

[7] ERP, 2003, Table B-110, Trade Weighted Value of the Dollar, p. 402
[8] Wall St. Journal, 3-28-03, p. C-1.
[9], BEA/DOC, National Accounts Data, Real GDP 2001-02, 3/27/03, http://www.bea.doc.gov/bea/dn1.htm.
[10] ERP 2003, Table B-103, p. 394.
[11] ERP 2003, Table B-1, p. 276 and Table B-103, p. 394.